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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in China Dongxiang (Group) Co., Ltd., you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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**DONGXIANG**  
**China Dongxiang (Group) Co., Ltd.**  
**中國動向（集團）有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 3818)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION**  
**(2) CONTINUING CONNECTED TRANSACTIONS**  
**AND**  
**(3) NOTICE OF EGM**

**Independent Financial Advisor to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders (as defined herein) is set out on pages 19 and 20 of this circular. A letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 47 of this circular.

A notice convening the EGM to be held at Island Ballroom A, Level 5, Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 25 September 2009 at 10:00 a.m. is set out on pages 53 to 55 of this circular. If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

7 September 2009

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“Announcement”	the Company’s announcement dated 24 August 2009 in relation to, inter alia, the Cooperation Agreement, the New Framework Agreement and the Annual Caps
“Annual Caps”	the Annual Caps of the New Framework Agreement in the amount of RMB455,000,000, RMB591,000,000 and RMB769,000,000 for the three years ending 31 December 2010, 2011 and 2012
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	A day (other than Saturday, Sunday and public holidays) on which banks in Hong Kong and PRC are generally open for business
“Cash Injection Amount”	RMB38,321,400, the cash injection amount for the subscription of 30% equity interest in the Joint Venture Company by Shanghai Gabanna pursuant to the Cooperation Agreement
“Chen Brothers”	Mr. Chen Yiliang, Mr. Chen Yiyong, Mr. Chen Yizhong, each a brother of Mr. Chen Yihong and a connected person of the Company
“Chen Brothers’ Controlled Entities”	Dong Gan Jing Ji and Dong Gan Jiu Liu, each controlled by the Chen Brothers and also a connected person of the Company
“Chen Co.”	a limited liability company to be incorporated in the PRC by Chen Brothers or their nominees as part of the Reorganisation
“Company”	China Dongxiang (Group) Co., Ltd. (中國動向(集團)有限公司) a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	an agreement dated 24 August 2009 entered into between Shanghai Gabanna and the Joint Venture Partners in relation to the formation of the Joint Venture Company and the proposed subscription by Shanghai Gabanna of 30% equity interest therein

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## DEFINITIONS

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“Director(s)”	director(s) of the Company
“Dong Gan Jing Ji”	北京動感競技經貿有限公司 (Dong Gan Jing Ji Company Limited*), a limited liability company established in the PRC, owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong as to 45%, 35% and 20% respectively. It is a major distributor of KAPPA brand products.
“Dong Gan Jiu Liu”	北京動感九六體育用品有限責任公司 (Dong Gan Jiu Liu Sportswear Company Limited*), a limited liability company established in the PRC, owned by Mr. Chen Yiliang and Mr. Chen Yiyong as to 70% and 30%, respectively
“EGM”	an extraordinary general meeting of the Company to be convened on Friday, 25 September 2009 at 10:00 a.m. at Island Ballroom A, Level 5, Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong to approve, among other things, the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder
“Framework Agreement”	the framework agreement dated 18 September 2007 entered into between the Company and Dong Gan Jing Ji pursuant to which the Company agreed to sell, or procure its subsidiaries to sell Kappa brand and Rukka brand products to Dong Gan Jing Ji for a period of 3 years ending 31 December 2009
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, lawful currency of Hong Kong Special Administrative Region of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	an independent committee of the Board comprising only independent non-executive Directors established to advise the Independent Shareholders in respect of the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder
“Independent Financial Advisor” or “Somerley”	Somerley Limited, a corporation licensed under the SFO which is permitted to engage in types 1, 4, 6 and 9 of the regulated activities as defined under the SFO, appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Cooperation Agreement, the entering into the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Shareholders”	the shareholders of the Company, excluding Mr. Chen Yihong and his associates
“Joint Venture Company”	上海億博韜厲經貿有限公司 (Shanghai Yi Bo Tu Li Company Limited*), a limited liability company to be established under the laws of the PRC to act as the holding company of the Operating Company pursuant to the terms of the Cooperation Agreement
“Joint Venture Partners” or “Joint Venture Partner”	Mr. Chen Yiliang, Mr. Chen Yiyong, Mr. Chen Yizhong and Chen Brothers’ Controlled Entities
“Latest Practicable Date”	1 September 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Date”	10 October 2007, on which the trading of the shares of the Company first commenced on the main board of the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“New Framework Agreement”	the new framework agreement to be entered into between the Company, Dong Gan Jing Ji and the Operating Company pursuant to which the Company agreed to sell, or procure its subsidiaries to sell Kappa brand and other brand products to the Dong Gan Jing Ji and/or the Operating Company for a period of 3 years
“Operating Company”	翰博嘉業(北京)貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited*), a limited liability company to be established under the laws of the PRC as part of the Reorganisation
“PRC”	the People’s Republic of China and for the purposes of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“Prospectus”	the prospectus issued by the Company dated 25 September 2007 in relation to the listing of the Shares on the main board of the Stock Exchange
“Reorganisation”	the reorganisation steps taken or procured by Chen Brothers and Chen Brothers’ Controlled Entities to enable the Joint Venture Company to legally and beneficially owns the Target Assets and Business through Operating Company as set out in the section headed “Cooperation Agreement” of this circular

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## DEFINITIONS

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“RMB”	Renminbi, lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Gabanna”	上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited*), a company established in the PRC on 12 September 2008 and a indirect wholly-owned subsidiary of the Company
“Shares”	shares of the Company
“Shareholder(s)”	the holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Target Assets and Business”	such assets and business, as approved by Shanghai Gabanna, to be injected or transferred into the Operating Company, including but not limited to the existing distribution business of Kappa brand products conducted pursuant to the Framework Agreement, tangible and intangible assets, inventories, equipments, moveable and immovable assets, retail shops, sales networks, brand licensing arrangements and labour contracts etc currently owned and/or conducted by Chen Brothers’ Controlled Entities.

“\*” denotes an English translation of a Chinese name and is provided for identification purposes only.

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*(Incorporated in the Cayman Islands with limited liability)*  
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*Executive Directors:*

Mr. Chen Yihong  
Mr. Qin Dazhong

*Non-executive Director:*

Mr. Gao Yu

*Independent Non-executive Directors:*

Mr. Mak Kin Kwong  
Dr. Xiang Bing  
Mr. Xu Yudi

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business  
in Hong Kong:*

Office unit 9, 13/F., Tower Two  
Lippo Centre  
No. 89 Queensway  
Hong Kong

7 September 2009

*To the Shareholders*

Dear Sir/Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION**  
**(2) CONTINUING CONNECTED TRANSACTIONS**  
**AND**  
**(3) NOTICE OF EGM**

**(A) INTRODUCTION**

Reference is made to the Announcement.

**(1) Discloseable and Connected Transaction**

On 24 August 2009, Shanghai Gabanna, an indirect wholly-owned subsidiary of the Company, Chen Brothers and Chen Brothers' Controlled Entities entered into the Cooperation Agreement pursuant to which Shanghai Gabanna agreed to subscribe for 30% equity interest in the Joint Venture Company for RMB38,321,400 in cash. Such transaction represents the Group's sixth investment in its key distributors following its recent equity cooperation with 5 other key distributors in Hangzhou, Nanjing, Tianjin,

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## LETTER FROM THE BOARD

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Shanxi and Shenyang, under each of which the Group also acquired a 30% minority stake. It marks a milestone for the Group in investing direct in the distributors and establishing a closer relationship with them.

### **(2) Continuing Connected Transactions**

The Cooperation Agreement contemplated a Reorganisation by Chen Brothers and the Chen Brothers' Controlled Entities whereby they shall transfer the Target Assets and Business to the Operating Company, and as a result, the continuing connected transaction arrangement currently entered into with Dong Gan Jing Ji and the underlying waiver from the strict compliance with the Listing Rules would need to be revised. As it is difficult to ascertain the time required for the Reorganisation, hence, the completion of the investment by Shanghai Gabanna in the Joint Venture Company, in order to preserve business continuity and the fact that the underlying distribution arrangement currently conducted by Dong Gan Jing Ji is essentially the same business as those to be conducted by the Operating Company, the Directors propose that the New Framework Agreement to be entered into between the Company, Dong Gan Jing Ji and the Operating Company and the related the Annual Caps shall be applicable to Dong Gan Jing Ji and/or the Operating Company in case that the proposed investment under the Cooperation Agreement is not completed by the end of 2009 or at all for whatever reasons.

The purpose of this circular is to provide you with further information on details of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, the respective advice of the Independent Financial Advisor and the Independent Board Committee in relation to the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder. A notice of the EGM is set out on pages 53 to 55 of this circular.

### **(B) DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **The Cooperation Agreement**

A summary of the principal terms of the Cooperation Agreement is set out below:

*Date*

24 August 2009

*Parties*

- (1) Shanghai Gabanna
- (2) Chen Brothers
- (3) Chen Brothers' Controlled Entities

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## LETTER FROM THE BOARD

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### **Effectiveness of the Cooperation Agreement**

The Cooperation Agreement shall take effect subject to the Company obtaining the Independent Shareholders' approval at the EGM and the compliance with the requirements under the Listing Rules with regards to connected transactions.

### **Investment by Shanghai Gabanna**

Completion of the subscription of 30% equity interest in the Joint Venture Company by Shanghai Gabanna by way of cash injection of the Cash Injection Amount, i.e. RMB38,321,400, shall be subject to certain conditions precedent which include:

- (a) all representations and warranties given by Chen Brothers in relation to the Operating Company and the Joint Venture Company remain true and accurate on the date of completion of the Cooperation Agreement and no material omission in relation thereto;
- (b) no charge or mortgage interest whatsoever has been created on any equity interest of the Joint Venture Company. The subscription of 30% equity interests in the Joint Venture Company by Shanghai Gabanna in the form of capital injection is not in contravention with any entitlement, pre-emptive right, and/or similar rights of any third party;
- (c) all necessary third party and government consents and approvals in relation to the Reorganisation and the subscription by Shanghai Gabanna have been obtained;
- (d) other than the Reorganisation, there has not been (i) any material adverse change in the nature of the Target Assets and Business and (ii) neither the Operating Company nor the Joint Venture Company is under or subject to any bankruptcy, insolvency or repayment schedule or proceedings; and
- (e) the completion of the Reorganisation by Chen Brothers and Chen Brothers' Controlled Entities.

provided that all the conditions precedent shall be satisfied within 6 months from the date of the Cooperation Agreement taking effect, and Shanghai Gabanna shall be entitled to opt for completion even if some of the conditions precedent remain outstanding. The Cash Injection Amount shall be settled by Shanghai Gabanna within 14 Business Days from the completion or satisfaction of the above conditions precedent.

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## LETTER FROM THE BOARD

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The Cash Injection Amount is determined after arm's length negotiations calculated with reference to the aggregate net profits attributable to the Target Assets and Business after tax for the year ended 31 December 2008 of Chen Brothers' Controlled Entities ("**2008 Profits**") times a price earning multiple of 4.42. The Directors compare the price earning multiples with those of a number of Hong Kong listed PRC sportswear companies and are of the view that such price earning multiple is fair and reasonable due to two reasons, (a) the profit ratio is in the same band as those with independent third party distributor in the PRC which the Group concluded transaction with earlier this year and (b) such price earning multiple of 4.42 is lower than that of a number of the Hong Kong listed PRC sportswear companies, which range from approximately 11.9 times to above 13 times as of 11 August 2009.

The aggregate unaudited net profits attributable to the Target Assets and Business (both before and after taxation and extraordinary items) of Chen Brothers' Controlled Entities for the year ended 31 December 2008 prepared in accordance with the PRC GAAP were RMB38,542,300 and RMB28,906,725 respectively. The aggregate unaudited net profits attributable to the Target Assets and Business (both before and after taxation and extraordinary items) of Chen Brothers' Controlled Entities for the year ended 31 December 2007 prepared in accordance with the PRC GAAP were RMB33,250,000 and RMB22,300,000 respectively. The aggregate net profits figures for the year ended 31 December 2007 as disclosed above are unaudited figures and they were provided by the Chen Brothers' Controlled Entities. The Company has not undertaken any independent due diligence works in verifying these figures.

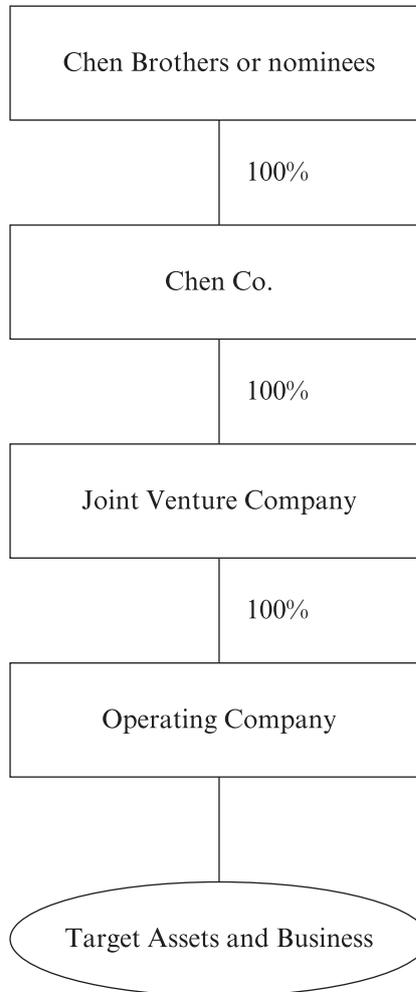
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## LETTER FROM THE BOARD

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### Reorganisation

The Cooperation Agreement required Chen Brothers, Chen Brothers' Controlled Entities or their nominees (as approved by Shanghai Gabanna) to undertake Reorganisation by incorporating several new companies in the PRC. Such companies will be established and will upon the Cooperation Agreement taking effect acquire the Target Assets and Business from the Chen Brothers' Controlled Entities. Upon completion of the Reorganisation, the equity-holding structure of these companies will be as follows:

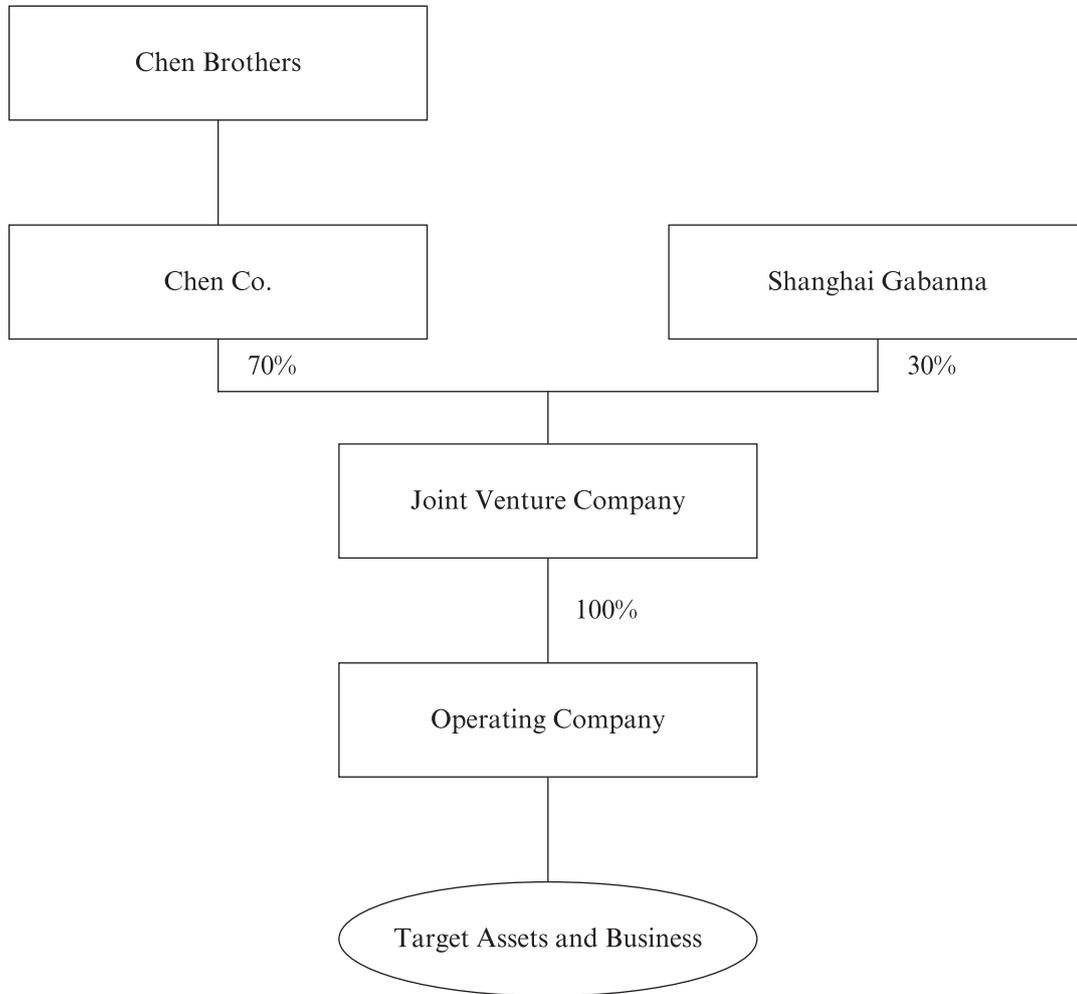


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## LETTER FROM THE BOARD

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Immediately following the completion of the Reorganisation and the investment by Shanghai Gabanna, the equity-holding structure of the Joint Venture Company will be as follows:



Each of the Chen Brothers guaranteed that the net assets value of the Operating Company shall not be less than RMB40,000,000 upon completion of the Reorganisation. If the net assets value of the Operating Company upon completion of the Reorganisation as verified by an independent valuer is less than RMB40,000,000, Chen Brothers shall transfer cash or such assets as approved by Shanghai Gabanna to the Operating Company to make up the shortfall. The net assets value of the Target Assets and Business to be transferred to the Operating Company should be in any event not less than RMB40,000,000.

### **Registered capital**

The initial registered capital of the Joint Venture Company upon incorporation shall be RMB20,000,000.

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## LETTER FROM THE BOARD

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### **Purpose of the Joint Venture Company**

The Joint Venture Company will act as the holding company of the Operating Company and its underlying Target Assets and Business. The Operating Company will be principally engaged in the distribution of sportswear products in major cities and provinces of the PRC, namely Beijing and nearby areas, Shandong, Shaanxi and Ningxia, including but not limited to Kappa brand products and operation of sportswear shopping centres in Beijing.

### **Equity holding adjustment arrangement**

#### *Profits guarantee*

Chen Brothers undertake that the aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) as shown in its audited consolidated financial statements for the two years ending 31 December 2009 and 2010 to be prepared in accordance with the PRC GAAP shall not be less than 258.75% of 2008 Profits, i.e. RMB74,796,151 (the “**Target Profits**”).

#### **A. ACTUAL PROFITS FELL BELOW THE TARGET PROFITS**

If the actual aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) as shown in its audited consolidated financial statements for the two years ending 31 December 2009 and 2010 to be prepared in accordance with the PRC GAAP (the “**Actual Profits**”) are lower than the Target Profits, Shanghai Gabanna will be entitled to additional equity interest in the Joint Venture Company calculated in accordance with the following formula in consideration of RMB1, provided that at no time shall Shanghai Gabanna’s equity interest in the Joint Venture Company exceed 45%:

$$\text{Additional equity interest} = \frac{(\text{Target Profits} - \text{Actual Profits}) \times 30\%}{\text{Actual Profits}}$$

provided that if the Actual Profits is less than RMB1, it should be deemed as RMB1 for the purposes of calculating the additional equity interest of Shanghai Gabanna.

Given that the maximum equity interest of Shanghai Gabanna in the Joint Venture Company shall not exceed 45%, the additional equity interest which Chen Brothers will transfer to Shanghai Gabanna in any event shall not exceed 15%, however, if the shortfall in profits allows Shanghai Gabanna to entitle to more than 45% equity interest in the Joint Venture Company, Chen Brothers shall provide compensation to Shanghai Gabanna in cash, at the same price per each percent of equity interest paid by Shanghai Gabanna with reference to the Cash Injection Amount subject to a maximum limit a cash equivalent of 55% of the entire equity holding in the Joint Venture Company, which would amount to RMB70,255,900. In other words, Chen Brothers shall at least retain a minimum of 55% equity-holding in the Joint Venture if such incident occurs.

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## LETTER FROM THE BOARD

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Should the Actual Profits be less than the Target Profits, the Company will publish an announcement in accordance with Rule 2.07C of the Listing Rules and will include such relevant details in its next published annual report and accounts. The independent non-executive Directors will provide an opinion in the listed issuer's next published annual report and accounts as to whether the Chen Brothers have fulfilled their obligations under the profits guarantee.

### **B. ACTUAL PROFITS EXCEEDED THE TARGET PROFITS**

If the Actual Profits exceeded the Target Profits, Shanghai Gabanna shall grant monetary award to Chen Brothers, calculated in accordance with the following formula:

$$\text{Monetary Award} = \frac{(\text{Actual Profits} - \text{Target Profits}) \times 30\%}{2}$$

provided that the above monetary payment will not exceed the aggregate amount of dividends received by Shanghai Gabanna from the Joint Venture Company in respect of the two financial years ending 31 December 2010.

#### **Right of first refusal and put option**

Any transfer, sale or disposal of equity interest in the Joint Venture Company by Chen Brothers shall be subject to the right of first refusal by Shanghai Gabanna. In addition, in the event that Chen Brothers sell any or all of their equity interest in the Joint Venture Company to a third party, Shanghai Gabanna has the right to put to Chen Brothers all or part of its equity interest in the Joint Venture Company at the higher price of either (1) the cash injection paid by Shanghai Gabanna plus the interest calculated according to the one year lending interest rate set by The People's Bank of China or (2) the valuation according to an independent valuer of the actual price of the equity interest of Shanghai Gabanna in the Joint Venture Company at the time when Chen Brothers notify Shanghai Gabanna of their intention of such transfer. Neither the right of first refusal nor the put option restriction shall be applicable to Shanghai Gabanna.

The exercise of the right of first refusal and the exercise or non-exercise of the put option shall be subject to the compliance with the then applicable Listing Rules.

#### **Board composition**

The board of directors of the Joint Venture Company will consist of three directors. Shanghai Gabanna will have the right to appoint one director whereas Chen Brothers will have the right to appoint the remaining two directors. Each shall be appointed for a term of three years. The operations, financial and management of the Operating Company shall be managed by the Joint Venture Company as its sole equity holder.

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## LETTER FROM THE BOARD

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### **Reserved matters**

The following reserved matters in relation to Joint Venture Company require the unanimous consent of its board of directors:

- (i) the approval of annual operation plan;
- (ii) the appointment, resignation and remuneration of the general manager and financial controller;
- (iii) the acquisition, merger, restructuring, consolidation, spin-off or any joint venture with any third parties;
- (iv) the expansion and investment in business other than the wholesale and distribution business;
- (v) any dealing with all or substantial amount of assets of the Joint Venture Company or its subsidiaries outside its normal course of business;
- (vi) entering into any connected transaction with dealing amount exceeding the amount previously approved by Shanghai Gabanna;
- (vii) any financial liabilities such as borrowing, guarantee, warranty, pledge, charge which are not previously approved and included in the annual operation plan;
- (viii) the issuance, redemption or repurchase of any securities of the Joint Venture Company or its subsidiaries;
- (ix) the change of registered capital;
- (x) the amendment to major accounting policy;
- (xi) the appointment of auditors;
- (xii) the amendment to the articles of association;
- (xiii) the amendment to the dividend policy;
- (xiv) the distributing of dividends which exceeds the payout ratio of 30%; and
- (xv) the winding up, insolvency or dismissal of the Joint Venture Company and the Operating Company.

### **Reasons for entering into the Cooperation Agreement**

The reasons for entering into the Cooperation Agreement are four-folds, firstly, the Group sees the investment as a way to monitor and exercise influence to enhance the operation of the distribution network, the direction and execution of business

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## LETTER FROM THE BOARD

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strategy and financial control of its key distributors; secondly, the Group considers that retail sector is a high value sector in the industry chain of sportswear business, the investment in retail sector will enable the Group to enjoy the benefit from such sector; thirdly, the investment by the Group in its key distributors helps increasing cash resources of the distributors to further develop their distribution network and business; and fourthly, in recent years, the sportswear retail industry in the PRC has been undergoing consolidation whereby smaller retail groups have been acquired by large retail groups with a view to strengthening market share and bargaining power, as such, the Group sees an increasing need to form closer relationship with its key distributors and get a minority shareholding interest in such distributors to maintain certain degree of influence over them and also to prevent them from being acquired by other retail groups.

The Group has been acquiring a minority interest in its other distributors in the PRC since 2009 with the same investment structure as the Cooperation Agreement and under substantially similar commercial terms. However, as the scale of those investments did not trigger the thresholds for any notifiable transaction under the Listing Rules, no reporting or disclosure of such investments for the purposes of the Listing Rules has been made so far.

### **Information on Shanghai Gabanna, Dong Gan Jing Ji and Dong Gan Jiu Liu**

Shanghai Gabanna is an indirect wholly-owned subsidiary of the Company. The Group is primarily engaged in the design, development, marketing and wholesale of branded sportswear in the PRC.

Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers of Mr. Chen Yihong, the chairman and an executive Director and a substantial Shareholder.

Dong Gan Jiu Liu and Dong Gan Jing Ji are limited liability companies incorporated in the PRC. They are both principally engaged in the distribution of sporting goods for a number of sports brands in China, including the Kappa brand and the operation of sportswear shopping centres. Dong Gan Jing Ji is also a distributor of the Group pursuant to the Framework Agreement.

### **Listing Rules Implications**

Mr. Chen Yihong is the chairman and an executive Director and is also a substantial Shareholder interested in approximately 49.28% issued share capital of the Company. He is indirectly entitled to exercise, or control the exercise of, more than 10% of the voting power at the general meetings of the Company. Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers of Mr. Chen Yihong and therefore they are associates of Mr. Chen Yihong. As Dong Gan Jing Ji is owned as to 45%, 35% and 20% by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong respectively and Dong Gan Jiu Liu is owned as to 70% and 30% by Mr. Chen Yiliang and Mr. Chen Yiyong respectively, pursuant to the Listing Rules, Dong Gan Jing Ji

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## LETTER FROM THE BOARD

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and Dong Gan Jiu Liu are associates of Mr. Chen Yihong and are therefore connected persons of the Company, hence, the transactions contemplated under the Cooperation Agreement constitute a connected transaction of the Company.

As one of the applicable ratios (other than the profits ratio) in respect of the investment by Shanghai Gabanna under the Cooperation Agreement is higher than 5%, the transaction constitutes a discloseable and non-exempt connected transaction of the Company under the Listing Rules and is subject to Independent Shareholders' approval, reporting and announcement requirements under Chapter 14A of the Listing Rules.

### (C) CONTINUING CONNECTED TRANSACTIONS

As disclosed in the section headed "Connected Transactions" in the Prospectus, in order to regulate the distribution relationships between Dong Gan Jing Ji and the Company, the Company entered into the Framework Agreement on 18 September 2007 with Dong Gan Jing Ji, with effect from the Listing Date for a period of 3 years until 31 December 2009.

As a result of the transfer of the Target Assets and Business to the Operating Company as part of the Reorganisation contemplated under the Cooperation Agreement, it is proposed that the Company shall enter into the New Framework Agreement with Dong Gan Jing Ji and the Operating Company to continue to grant the non-exclusive right to Dong Gan Jing Ji and/or the Operating Company to distribute Kappa brand and other sporting brand products in the PRC subject to the Annual Caps. As it is difficult to ascertain the time required for the Reorganisation, hence, the completion of the investment by Shanghai Gabanna in the Joint Venture Company, in order to preserve business continuity and the fact that the underlying distribution arrangement currently conducted by Dong Gan Jing Ji is essentially the same business as those to be conducted by the Operating Company, the Directors propose that the New Framework Agreement to be entered into between the Company, Dong Gan Jing Ji and the Operating Company and the related the Annual Caps shall be applicable to Dong Gan Jing Ji and/or the Operating Company in case that the proposed investment under the Cooperation Agreement is not completed by the end of 2009 or at all for whatever reasons. In view of the continuing development of the business of the Group and the expected increase in consumer spending in sportswear and sporting goods in the PRC, the Directors propose the Annual Caps for transactions to be effected pursuant to the New Framework Agreement for the three years ending 31 December 2010, 2011 and 2012, subject to the Independent Shareholders' approval at the EGM.

#### **The New Framework Agreement**

##### *Parties*

- (1) The Company
- (2) Dong Gan Jing Ji

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## LETTER FROM THE BOARD

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### (3) Operating Company

#### *Term*

3 years from 1 January 2010 to 31 December 2012

#### **Transactions under the New Framework Agreement**

A non-exclusive right to distribute Kappa brand and other brands sportswear products of Group in the PRC.

#### **Pricing**

Pursuant to the New Framework Agreement, the pricing or consideration for the transactions between the parties shall be comparable to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji and the Operating Company. The consideration for the transactions under the New Framework Agreement will not be more favourable or less favourable than those granted to independent distributors or consignees.

#### **Historical amounts and Annual Caps**

For the years ended 31 December 2007, 2008 and the five months ended 31 May 2009, the Company's sales to Dong Gan Jing Ji for the distribution of the Kappa brand and other brands products of the Group under the Framework Agreement amounted to RMB157,513,000, RMB304,626,000 and RMB172,336,000, respectively. The Company's sales to Dong Gan Jing Ji for the distribution of the Kappa brand and other brands products of the Group for the years ended 31 December 2007 and 2008 represented 9.21% and 9.17% of the Group's total revenue for the same period, respectively. The historic annual caps in respect of the transactions under the Framework Agreement for the three years ending 31 December 2007, 2008 and 2009 were RMB162,000,000, RMB315,000,000 and RMB475,000,000 respectively. The Directors believe that sales of the Kappa brand products will continue to grow for the next three years due to the growth in the reputation of and strong demand for the Kappa Brand as a result of the continuous marketing efforts and promotional activities of the Group in the PRC, especially in the major cities and provinces such as Beijing, Shandong, Shaanxi and Ningxia. Based on the above assumptions, the Directors estimate that the Company's sales to the Operating Company and/or Dong Gan Jing Ji will continue to grow significantly and the Annual Caps proposed by the Company for the transactions under the New Framework Agreement for the three years ending 31 December 2010, 2011 and 2012 are set out below:

	<b>Year ending 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Annual Caps	455,000,000	591,000,000	769,000,000

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## LETTER FROM THE BOARD

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### **Reasons for the entering into the New Framework Agreement and the Annual Caps**

As set out above, the Operating Company will be the holding company of the Target Assets and Business which will continue the distribution business previously conducted by Chen Brothers' Controlled Entities, in particular, the distribution of the Kappa brand in the PRC for the Group. The Company proposes the Annual Caps for transactions to be effected pursuant to the New Framework Agreement for the three years ending 31 December 2010, 2011 and 2012. The Annual Caps have been determined by reference to (i) the historical transaction amount under the Framework Agreement for the years ended 31 December 2007, 2008 and the five months period ended 31 May 2009 and (ii) the projected increase in sales volume of Kappa brand and other brand sportswear products in the PRC.

Dong Gan Jing Ji is one of the top three distributors of the Group, it maintains a very good business relationship with the Group due to its sales performance, reputation for reliability as a distributor, experience in sporting goods retail, and extensive network in Beijing and nearby areas, Shandong, Shaanxi and Ningxia, the Directors consider the continue business relationship with Dong Gan Jing Ji and the Operating Company will contribute to the continue development of the Group's sportswear business in the PRC.

### **Listing Rules Implications**

As each of the applicable percentage ratios (other than the profits ratio) on the Annual Caps is higher than 2.5% and the Annual Caps are more than HK\$10,000,000, according to Rule 14A.35 of the Listing Rules, the transactions contemplated under the New Framework Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

### **Information on the Joint Venture Company and the Operating Company**

The Joint Venture Company will be owned as to 30% by Shanghai Gabanna and 70% jointly by Chen Co. and is controlled by Chen Brothers who are connected persons of the Company. The Operating Company is held as to 100% by the Joint Venture Company and will upon incorporation, be the company carrying out the distribution and retail of sportswear business in Beijing and nearby areas, Shandong, Shaanxi and Ningxia. The Operating Company is therefore deemed to be a connected person of the Company for purposes of the Listing Rules.

### **(D) APPROVAL BY INDEPENDENT SHAREHOLDERS**

An Independent Board Committee has been formed to advise the Independent Shareholders and an Independent Financial Advisor has been appointed by the Company to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of entering into of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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Mr. Chen Yihong and his associates are required to abstain from voting at the EGM to approve the entering into of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

### **(E) EGM**

A notice of the EGM is set out on pages 53 to 55 of this circular. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the shareholders at a general meeting must be taken by poll. Therefore, the resolutions proposed at the EGM shall be voted by poll.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. The completion and return of a form of proxy will not preclude you from attending and voting at the EGM or adjournment thereof in person if you so wish.

### **(F) RECOMMENDATION**

The Directors (including the independent non-executive Directors, except Mr. Chen Yihong, having considered the advice of the Independent Financial Advisor), consider the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, are in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and, accordingly, the Directors (including the independent non-executive Directors except Mr. Chen Yihong) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

### **(G) ADDITIONAL INFORMATION**

Your attention is also drawn to “Letter from the Independent Board Committee”, “Letter from Somerley” and the additional information set out in the Appendix to this circular.

By Order of the Board  
**China Dongxiang (Group) Co., Ltd.**  
**Qin Dazhong**  
*Director*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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*The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Cooperation Agreement and the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*

**DONGXIANG**  
**China Dongxiang (Group) Co., Ltd.**  
**中國動向（集團）有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 3818)**

7 September 2009

*To the Independent Shareholders*

Dear Sir/Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION**  
**(2) CONTINUING CONNECTED TRANSACTIONS**  
**AND**  
**(3) NOTICE OF EGM**

We refer to the circular dated 7 September 2009 to the Shareholders (the “**Circular**”), of which this letter forms a part. Terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder and to advise the Independent Shareholders whether, in our opinion, the terms of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board which contains, inter alia, information about the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder, and the letter of advice from Somerley which contains its advice in respect of the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taking into account the principal reasons and factors considered by and the advice of Somerley, we consider (i) the terms of the Cooperation Agreement and the New Framework Agreement are on normal commercial terms and are fair and reasonable to the Independent Shareholders; and (ii) the entering into of the Corporation Agreement and the New Framework Agreement, and the continuing connected transactions contemplated under the New Framework Agreement are in the interests of the Company and the Shareholders as a whole. We also consider that the continuing connected transactions contemplated under the New Framework Agreement are in the ordinary and usual course of business of the Group and the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Cooperation Agreement, the New Framework Agreement, the Annual Caps and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of the Independent Board Committee

**MAK Kin Kwong**

*Independent non-executive  
Director*

**XIANG Bing**

*Independent non-executive  
Director*

**XU Yudi**

*Independent non-executive  
Director*

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## LETTER FROM SOMERLEY

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*The following is the letter of advice from the independent financial advisor, Somerley Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY LIMITED**  
10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

7 September 2009

*To: the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **(1) DISCLOSEABLE AND CONNECTED TRANSACTION AND (2) CONTINUING CONNECTED TRANSACTIONS**

We refer to our appointment as independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in connection with (a) the Cooperation Agreement entered into among Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company), Chen Brothers and Chen Brothers' Controlled Entities on 24 August 2009 relating to, among other things, the proposed subscription of 30% equity interest in the Joint Venture Company by Shanghai Gabanna; and (b) the continuing connected transactions (the "Continuing Connected Transactions") and the Annual Caps contemplated under the New Framework Agreement to be entered into among the Company, Dong Gan Jing Ji and the Operating Company. Details of the Cooperation Agreement and the proposed terms of the New Framework Agreement are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 7 September 2009 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

We are informed by the Company that Mr. Chen Yihong, the chairman and an executive Director of the Company, and his spouse were interested in approximately 49.28% of the issued share capital of the Company as at the date of the Cooperation Agreement and the Latest Practicable Date. Therefore, Mr. Chen Yihong is a connected person of the Company under the Listing Rules. Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong are brothers of Mr. Chen Yihong and are therefore associates of Mr. Chen Yihong under the Listing Rules. Dong Gan Jing Ji is wholly-owned by Chen Brothers and Dong Gan Jiu Liu is wholly-owned by Mr. Chen Yiliang and Mr. Chen Yiyong. Accordingly, Dong Gan Jing Ji and Dong Gan Jiu Liu are associates of Mr. Chen Yihong and therefore connected persons of the Company under the Listing Rules. Hence, the transactions contemplated under the Cooperation Agreement constitute a connected

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## LETTER FROM SOMERLEY

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transaction for the Company under the Listing Rules. As one of the applicable ratios (other than the profits ratio) with respect to the investment by Shanghai Gabanna under the Cooperation Agreement exceeds 5%, the transaction constitutes a discloseable and non-exempt connected transaction for the Company under the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) on the Annual Caps pursuant to the New Framework Agreement exceeds 2.5% and the Annual Caps are more than HK\$10,000,000, the transactions contemplated under the New Framework Agreement constitute non-exempt continuing connected transactions for the Company under the Listing Rules.

Accordingly, the above transactions are subject to the Independent Shareholders' approval requirement under the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the transactions contemplated under the Cooperation Agreement and the New Framework Agreement (including the Annual Caps) at the EGM.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Mak Kin Kwong, Dr. Xiang Bing and Mr. Xu Yudi has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the terms of the Cooperation Agreement and the proposed terms of the New Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of (i) the Cooperation Agreement and the New Framework Agreement; and (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (3) the Continuing Connected Transactions are in the ordinary and usual course of business of the Group; and (4) the proposed Annual Caps for the three financial years ending 31 December 2010, 2011 and 2012 are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, Chen Brothers and Chen Brothers' Controlled Entities, nor have we carried out any independent verification of the information supplied.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In considering whether the terms of the Cooperation Agreement, the proposed terms of the New Framework Agreement and the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

### **A. Background to and reasons for the Cooperation Agreement, the New Framework Agreement and the Continuing Connected Transactions**

#### *The Cooperation Agreement*

The Group is principally engaged in the design, development, marketing and wholesale of branded sportswear in the PRC and positions itself as a brand management enterprise. The Group is the owner of all rights to the Kappa brand in the PRC and Macau. Moreover, the Group, through Phenix Co., Ltd. (“Phenix”) owns the brand of “PHENIX” in the ski and outdoor sportswear market and “KAPPA” in the football, athletic and golf sportswear markets in Japan. Phenix is also the owner of the brand of “X-NIX” in the snowboard sportswear market and “Inhabitant” in the casual wear market in Japan.

As disclosed in the 2008 annual report of the Group, the respective business of the Kappa brand China, the Japan segment and others contributed approximately 84.3%, 12.5% and 3.2% to the total sales of the Group for the year ended 31 December 2008.

The Group outsources its manufacturing and end distribution to third parties by adopting an “asset-light” business model to run the brand management business. Only one primary distributor in one defined geographical area of its market is appointed by the Group because this “primary distributor” policy helps to motivate distributors and foster loyalty of distributors towards the Group by avoiding local competition among distributors. In order to facilitate the supervision of distributors, distributors are categorised into four tiers, namely A1, A2, B and C, based on their sales revenue, sales channels, record of trade receivables settlement and pre-order fulfillment ratio. The Group will review the grading of distributors semi-annually.

The business of the Group grew rapidly for the past three financial years with revenue of approximately RMB0.9 billion, RMB1.7 billion and RMB3.3 billion in 2006, 2007 and 2008 respectively. Such significant growth was accredited to, among other things, continuous marketing and promotion of Kappa brand, improved product design, and expansion of range of product offerings and retail network in the PRC.

The executive Directors consider that operation management of distributors’ retail outlets is one of key drivers for the growth of business of the Group. Accordingly, the Group assists its distributors to improve their operation management by offering training to staff of distributors and guidance in respect

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## LETTER FROM SOMERLEY

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of, among other things, product display and retail outlet design. Being a business partner instead of a shareholder, the Group's participation and guidance are limited to the operation management of distributors' retail outlets. If the Group can participate in formulating the overall strategies and policies of distributors, and overseeing their business, strategic decisions and performance, the executive Directors are of the view that it can promote their long-term growth, which in turn, is beneficial to the Group. Coupled with a view to strengthening the Group's relationships with key distributors, the executive Directors have launched a plan to invest in retail business of certain key distributors by forming joint ventures with certain key distributors which inject their respective sportswear retail business into the joint ventures. The Group contributes its interests in these joint ventures in the form of cash. In addition, the formation of joint ventures with certain key distributors allows the Group to monitor and exercise greater influence on their operation of the distribution network, and their direction and execution of business strategy so as to improve their management and operation.

The executive Directors are of the view that prospects for the sportswear retail industry in the PRC are promising. In response to the drop of exports as a result of the financial tsunami, the PRC government has introduced and implemented a RMB4 trillion economic stimulus plan to boost domestic demand and consumption so as to maintain economic growth. Moderately relaxed monetary policies have also been adopted by the PRC government to promote economic growth. The stimulation of domestic demand and consumption is expected to promote the demand for sportswear products. Accordingly, the executive Directors expect the Group to benefit from these opportunities by forming joint ventures with certain key distributors to participate in the sportswear retail industry in the PRC.

The third reason for forming joint ventures with certain key distributors is that it will strengthen their cash resources to further expand their distribution network and business, and recruit experienced staff for management. These will generate more business for the Group.

Last, the PRC sportswear retail industry has been undergoing consolidation in recent years. Certain large retail groups acquire smaller retail groups to gain more market share. If the new management of key distributors refuses to continue the business relationship with the Group or impose onerous terms after such acquisition, the executive Directors are of the view that there may be material adverse impact on the Group's business. Therefore, the formation of joint ventures with certain key distributors can avoid them from being acquired by other retail groups so as to preserve the Group's business.

With aforesaid reasons and benefits, the Group has approached certain of its key distributors to form joint ventures. As at the Latest Practicable Date, 5 cooperation joint venture agreements were entered into and remained in force with 5 of the Group's key distributors, 4 of which were classified as tier A2 distributors and the remaining one was classified as a tier B distributor. These 5

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## LETTER FROM SOMERLEY

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distributors contributed to approximately 18.1% of the total sales of the Group for the year ended 31 December 2008. The Company holds 30% interests in these 5 joint ventures. The executive Directors consider that distributors bring significant value to the Group as a result of their intimate understanding of local customer demand and spending patterns, and local market trends. Therefore, the executive Directors intend to continue to work with them and leverage their local retail management experience to further develop the Group's distribution network in the PRC by taking a minority interest of 30% in these joint ventures instead of taking majority control. We are of the view that the holding of minority interests in the joint ventures is complementary to the Group's "asset-light" business model.

As at the Latest Practicable Date, Dong Gan Jing Ji was appointed as a distributor for five regions (tier A1 distributor for two of its service regions, tier A2 distributor for the other one of its service regions and tier B distributor for the remaining two of its service regions). The five regions include Beijing, Shangdong, Shaanxi, Ningxia and Hebei. The Company regards Hebei as a nearby area of Beijing. It was disclosed in the 2008 annual report that the sales of goods by the Group to Dong Gan Jing Ji amounted to approximately RMB304.6 million for the year ended 31 December 2008, accounting for approximately 9.2% of the total sales of the Group in 2008. Dong Gan Jiu Liu is principally engaged in the operation of sportswear shopping centres in Beijing but is not a distributor of the Group. As discussed above, it is the view of the executive Directors that prospects of the PRC sportswear retail industry are promising. Accordingly, the executive Directors consider that it is in the interests of the Group to form a joint venture with Chen Brothers, owners of Dong Gan Jing Ji and Dong Gan Jiu Liu with the Target Assets and Business to be injected into the Joint Venture Company through the Operating Company. The Cooperation Agreement was entered into for regulating the rights and obligations of the parties.

### *The New Framework Agreement*

Dong Gan Jing Ji has been appointed by the Group as a distributor since August 2005. Since its appointment, the Group has been maintaining a stable and sound trading relationship with Dong Gan Jing Ji, as one of the Group's top three distributors. The executive Directors consider that such appointment is in line with the business objective of the Group and serves to provide mutual benefits to both the Group and Dong Gan Jing Ji. From the Group's perspective, the sale of products to Dong Gan Jing Ji enables the Group to leverage on Dong Gan Jing Ji's experience in retail of sportswear and extensive retail network. We are informed by the executive Directors that the Group has not encountered any problem in collecting sales proceeds from Dong Gan Jing Ji in the past. Furthermore, the Group is satisfied with Dong Gan Jing Ji's sales performance and reputation for reliability as a distributor. As at the Latest Practicable Date, Dong Gan Jing Ji is classified as a tier A1 distributor for two of its service regions according to the Group's distributor grading system. The Framework Agreement with Dong Gan Jing Ji for the sale of products by the Group to Dong Gan Jing Ji

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## LETTER FROM SOMERLEY

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is valid for a period up to 31 December 2009. Based on the reasons as set out above, the executive Directors consider that it is in the interests of the Company and the Shareholders as a whole to continue the business relationship with Dong Gan Jing Ji after the lapse of the Framework Agreement.

As a result of the transfer of the Target Assets and Business to the Operating Company as part of the Reorganisation contemplated under the Cooperation Agreement (of which details are set out under paragraph headed “Principal terms of the Cooperation Agreement” below) and the uncertainty when completion of the Reorganisation will take place, it is proposed that the Company shall enter into the New Framework Agreement with Dong Gan Jing Ji and the Operating Company to continue to appoint Dong Gan Jing Ji and/or the Operating Company as the Group’s distributor on a non-exclusive basis for distribution of Kappa brand and other sporting brand products in the PRC subject to the Annual Caps.

In light of the principal activities of the Group, we consider that the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group.

### **B. The Cooperation Agreement**

#### ***1. Principal terms of the Cooperation Agreement***

On 24 August 2009, Shanghai Gabanna (an indirect wholly-owned subsidiary of the Company), Chen Brothers and Chen Brothers’ Controlled Entities entered into the Cooperation Agreement pursuant to which Shanghai Gabanna agreed to subscribe for 30% equity interest in the Joint Venture Company for RMB38,321,400 in cash. Principal terms of the Cooperation Agreement are as follows:

##### *(i) Investment in the Joint Venture Company*

Prior to completion of the Cooperation Agreement, Chen Brothers and Chen Brothers’ Controlled Entities have to complete the Reorganisation by transferring the Target Assets and Business into the Operating Company (a company to be established under the PRC laws and a wholly-owned subsidiary of the Joint Venture Company). Further details of the Reorganisation are set out in the paragraph headed “Reorganisation” below. Upon completion of the Cooperation Agreement, the Joint Venture Company will be owned as to 30% by Shanghai Gabanna; and as to 70% by Chen Brothers. Shanghai Gabanna will inject cash of RMB38,321,400 into the Joint Venture Company to subscribe for 30% equity interest in the Joint Venture Company. As advised by the executive Directors, the Cash Injection Amount of RMB38,321,400 will be funded by internal resources of the Group.

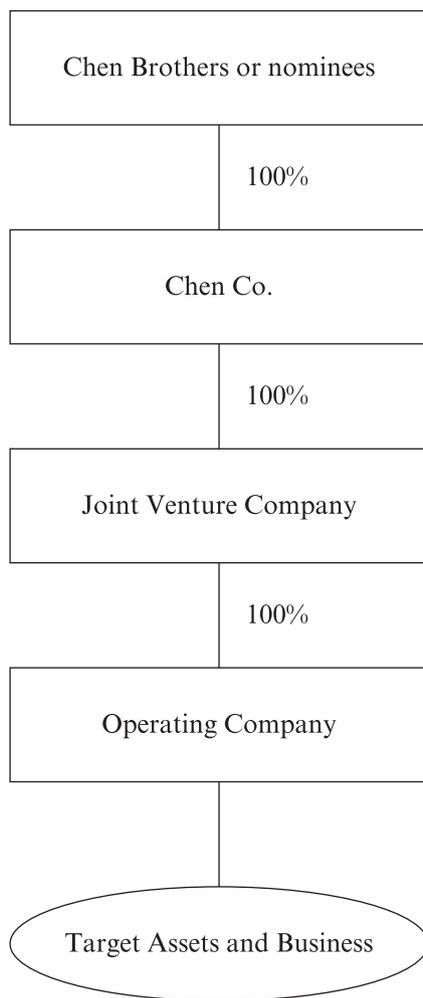
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## LETTER FROM SOMERLEY

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*(ii) Reorganisation*

Pursuant to the Cooperation Agreement, Chen Brothers, Chen Brothers' Controlled Entities or their nominees (as approved by Shanghai Gabanna) are required to undertake the Reorganisation by establishing several new companies in the PRC. Such companies will acquire the Target Assets and Business from Chen Brothers' Controlled Entities and the Joint Venture Company will, through the Operating Company, own the Target Assets and Business upon completion of the Reorganisation. The diagram below illustrates the equity-holding structure of these companies upon completion of the Reorganisation but before completion of the Cooperation Agreement:

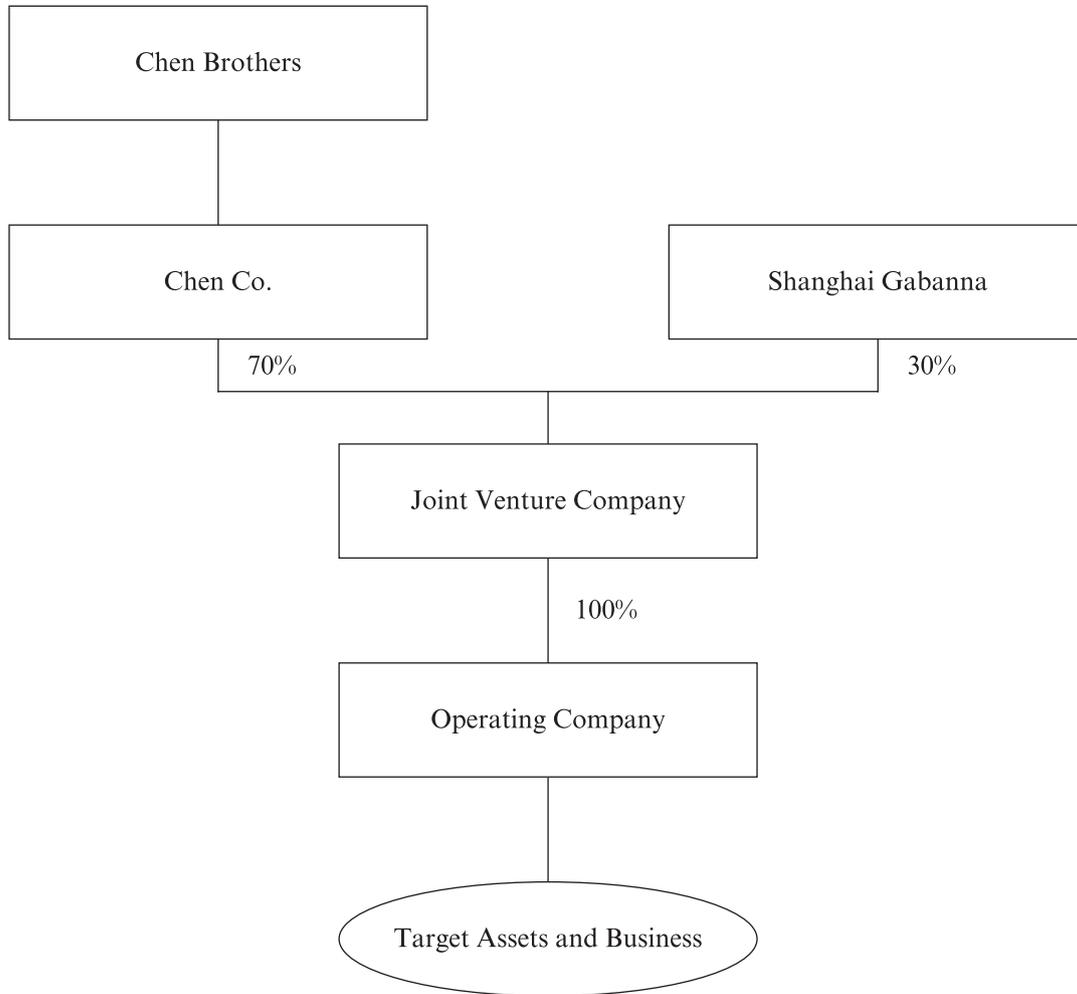


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## LETTER FROM SOMERLEY

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The following diagram sets out the equity-holding structure of the Joint Venture Company immediately following completion of the Reorganisation and the investment by Shanghai Gabanna:



Pursuant to the Cooperation Agreement, each of the Chen Brothers guaranteed that the net assets value of the Operating Company shall not be less than RMB40,000,000 upon completion of the Reorganisation. Should the net assets value of the Operating Company upon completion of the Reorganisation be less than RMB40,000,000 (as verified by an independent valuer), Chen Brothers shall transfer cash or such assets as approved by Shanghai Gabanna to the Operating Company to make up the shortfall.

*(iii) Registered capital of the Joint Venture Company*

The initial registered capital of the Joint Venture Company shall be RMB20,000,000 upon incorporation.

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## LETTER FROM SOMERLEY

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*(iv) Purpose of the Joint Venture Company*

Pursuant to the Cooperation Agreement, the Joint Venture Company will become the holding company of the Operating Company which is its principal asset. The Operating Company will hold the Target Assets and Business as its principal asset and be principally engaged in the distribution of sportswear products in major cities and provinces of the PRC, namely Beijing and nearby areas, Shandong, Shaanxi and Ningxia, including but not limited to Kappa brand products and operation of sportswear shopping centres in Beijing.

*(v) Effective date of the Cooperation Agreement*

The Cooperation Agreement shall take effect subject to the Company obtaining the Independent Shareholders' approval at the EGM and compliance with the requirements under the Listing Rules with respect to connected transactions.

*(vi) Conditions precedent*

Completion of the subscription for 30% equity interest in the Joint Venture Company by Shanghai Gabanna is subject to conditions precedent as stated in the Cooperation Agreement including but not limited to those set out in the "Letter from the Board" contained in the Circular, and provided that the conditions precedent shall be fulfilled within 6 months from the date of the Cooperation Agreement taking effect.

Shanghai Gabanna shall be entitled to proceed with completion even if certain conditions precedent remain outstanding or to terminate the Cooperation Agreement if such conditions precedent have not been fulfilled within the specified period. Shanghai Gabanna shall settle the Cash Injection Amount within 14 Business Days from the completion or satisfaction of the conditions precedent.

*(vii) Management of the Joint Venture Company*

Shareholders of the Joint Venture Company are entitled to appoint such number of board representatives in proportion to their respective shareholding interests in the Joint Venture Company. The board of the Joint Venture Company will consist of three directors. Accordingly, Shanghai Gabanna will be entitled to appoint one director while the remaining two will be appointed by Chen Brothers. Each director shall be appointed for a term of three years.

Pursuant to the Cooperation Agreement, the general manager of the Joint Venture Company shall be appointed by Chen Brothers while the financial controller of the Joint Venture Company shall be appointed by Shanghai Gabanna.

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## LETTER FROM SOMERLEY

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Usual business requires approval by a simple majority of the board. However, reserved matters in relation to the Joint Venture Company require unanimous consent of the board, details of which are set out in the “Letter from the Board” contained in the Circular.

The requirement for unanimous consent of the board for reserved matters (in particular, the approval of annual operation plan; the appointment, resignation and remuneration of the general manager and financial controller; the acquisition, merger, restructuring, consolidation, spin-off or any joint venture with any third parties; the expansion and investment in business other than the wholesale and distribution business; any dealing with all or substantial amount of assets of the Joint Venture Company or its subsidiaries outside its normal course of business; any financial liabilities not previously approved and included in the annual operation plan; the issuance, redemption or repurchase of any securities of the Joint Venture Company or its subsidiaries; the alteration of registered capital and the amendment to the articles of association) allows the Company to exercise its veto power if the proposal made by Chen Brothers is not considered to be in the interests of the Company by the Board. Moreover, the Company can monitor the operation of the Joint Venture Company through its representation on the board and its right to appoint the financial controller of the Joint Venture Company. On this basis, we are of the view that appropriate measures will be in place to safeguard the Company’s interests.

*(viii) Right of first refusal and put option*

Pursuant to the Cooperation Agreement, any transfer, sale or disposal of equity interest in the Joint Venture Company by Chen Brothers shall be subject to the right of first refusal by Shanghai Gabanna. Also, in the event that Chen Brothers sell any or all of their equity interest in the Joint Venture Company to a third party, Shanghai Gabanna has the right to put to Chen Brothers all or part of its equity interest in the Joint Venture Company at the higher price of either (a) the cash injection paid by Shanghai Gabanna plus the interest calculated according to the one year lending interest rate set by The People’s Bank of China; or (b) the valuation according to an independent valuer of the actual price of the equity interest of Shanghai Gabanna in the Joint Venture Company at the time when Chen Brothers notify Shanghai Gabanna of their intention of such transfer. Neither the right of first refusal nor the put option restriction shall apply to Shanghai Gabanna.

The exercise of the right of first refusal and the exercise or non-exercise of the put option shall be subject to the compliance with the then applicable Listing Rules.

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## LETTER FROM SOMERLEY

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The Cooperation Agreement sets out the major terms which regulate the rights and obligations of the parties with respect to the Joint Venture Company. We note that those terms are based on normal commercial terms and the economic risk and return are distributed among the joint venture partners on a pro-rata basis, which we consider fair and reasonable.

### ***2. Evaluation of the Cash Injection Amount***

The Cash Injection Amount of RMB38,321,400 for the subscription of 30% equity interest in the Joint Venture Company was determined among the parties after arm's length negotiations calculated with reference to the aggregate unaudited net profit attributable to the Target Assets and Business after tax (prepared in accordance with the PRC GAAP) for the year ended 31 December 2008 of Chen Brothers' Controlled Entities of RMB28,906,725 (the "2008 Profits"). The Cash Injection Amount values the entire Target Assets and Business to be held by the Joint Venture Company at approximately RMB127.7 million and therefore represents a historical price to earnings multiple ("PER") of approximately 4.42 times based on the aggregate unaudited net profit attributable to the Target Assets and Business after tax (prepared in accordance with the PRC GAAP) of Chen Brothers' Controlled Entities of approximately RMB28.9 million for the year ended 31 December 2008.

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**LETTER FROM SOMERLEY**

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*(i) Compared to earnings*

In our evaluation of the fairness and reasonableness of the Cash Injection Amount, we have looked for companies listed in Hong Kong which are engaged in a similar business to the Joint Venture Company. However, we are not able to identify any Hong Kong listed company with a sole focus on sportswear retail business in the PRC. Alternatively, we have researched the market ratings of listed companies principally engaging in sportswear business in the PRC. We have identified 5 listed companies (the “Comparable Companies”) (other than the Company) that meet these selection criteria. The table below illustrates the historical/estimated PER represented by the closing market capitalisation as at the Latest Practicable Date and the latest published profit/estimated profit of the respective Comparable Companies:

Company name	Closing market capitalisation as at Latest Practicable Date <i>(Note 1)</i> <i>HK\$ million</i>	Audited annual consolidated profit attributable to shareholders/estimated combined profit attributable to shareholders <i>(Note 2)</i> <i>HK\$ million</i>	Historical/estimated PER <i>(Note 3)</i> <i>Times</i>
ANTA Sports Products Limited (“ANTA”) (stock code: 2020)	25,307.8	1,011.1	25.0
Li Ning Company Limited (“Li Ning”) (stock code: 2331)	22,663.5	815.0	27.8
Pou Sheng International (Holdings) Limited (“Pou Sheng”) (stock code: 3813)	5,577.6	546.2	10.2
Xtep International Holdings Limited (“Xtep”) (stock code: 1368)	8,281.6	574.2	14.4
361 Degrees International Limited (“361 Degrees”) (stock code: 1361)	6,671.3	624.3	10.7
Average			17.6
Median			14.4
<b>Target Assets and Business</b>			<b>4.42</b>

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*Notes:*

1. Source: Bloomberg.
2. The figures are extracted from the latest published annual report of the respective Comparable Companies, except that figure for 361 Degrees is extracted from its prospectus dated 18 June 2009. Figures in Renminbi and US dollars are translated into HK dollars at the rate of RMB1 = HK\$1.13 and USD1 = HK\$7.8 respectively.
3. The historical PERs of the Comparable Companies (except for 361 Degrees) are calculated based on their latest published audited annual consolidated profit attributable to their respective shareholders and their closing market capitalisation as at the Latest Practicable Date. The estimated PER of 361 Degrees is calculated based on the estimated minimum profit attributable to its shareholders as disclosed in its prospectus and its closing market capitalisation as at the Latest Practicable Date.

As illustrated above, shares of the Comparable Companies are traded at a range of between approximately 10.2 times and 27.8 times their respective historical/estimated net profit. The simple average PER of the Comparable Companies is approximately 17.6 times, with a median of approximately 14.4 times. The historical PER of the Target Assets and Business of approximately 4.42 times represented by the Cash Injection Amount is lower than the simple average and the median PER of the Comparable Companies. We consider this a favourable basis for the Group in subscribing for the 30% equity interest in the Joint Venture Company.

*(ii) Comparable recent deal*

We have searched on the website of the Stock Exchange to identify transactions involving acquisitions/investments in companies principally engaged in the PRC sportswear retail business by the Comparable Companies announced from 1 January 2009 and up to the Latest Practicable Date. Pou Sheng announced on 14 January 2009, that it had entered into an agreement with a vendor whereby, among other things, Pou Sheng had conditionally agreed to purchase 70% interest of the issued share capital of a target, whose principal asset is the entire equity interest in a company principally engages in sportswear retailing business in the PRC (the "Pou Sheng Deal"). It is disclosed in Pou Sheng's circular dated 4 February 2009 that the consideration for the acquisition consists of (a) cash in the amount of US\$54,946,359 (equivalent to approximately HK\$428,581,600); and (b) 393,584,541 new consideration Pou Sheng shares at an issue price of HK\$0.925 per consideration Pou Sheng share. The total consideration amounts to approximately HK\$792,647,300 (equivalent to approximately US\$101,621,449).

As shown in Pou Sheng's circular, the target recorded an audited consolidated net profit after tax of approximately US\$19.0 million for the year ended 30 September 2008. Based on the total consideration of approximately US\$101.6 million, the entire equity interest of the target is

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valued at approximately US\$145.2 million and therefore, the total consideration represents a historical PER of approximately 7.6 times of the audited consolidated net profit after tax of approximately US\$19.0 million for the year ended 30 September 2008 of the target.

On 3 July 2009, Pou Sheng further announced that the issue of 92,270,000 consideration Pou Sheng shares will be deferred in light of the change in business environment since the signing of the agreement as mentioned above, and such consideration Pou Sheng shares will only be issued to the vendor if relevant conditions are met. Assuming the relevant conditions cannot be met and such 92,270,000 consideration Pou Sheng shares will not be issued, the total consideration shall be approximately HK\$707.3 million, or equivalent to approximately US\$90.7 million (cash consideration of approximately HK\$428.6 million plus 301,314,541 consideration Pou Sheng shares at an issue price of HK\$0.925 per consideration Pou Sheng share). On this basis, the entire equity interest of the target shall be valued at approximately US\$129.5 million and therefore, the total consideration represents a historical PER of approximately 6.8 times of the target's audited consolidated net profit after tax of approximately US\$19.0 million for the year ended 30 September 2008.

The historical PER of the Target Assets and Business of approximately 4.42 times represented by the Cash Injection Amount is considered to be more favourable than the historical PER of the target in the Pou Sheng Deal.

*(iii) Compared to independent third party agreements of the Group*

As set out in the section headed "Background to and reasons for the Cooperation Agreement, the New Framework Agreement and the Continuing Connected Transactions" above, the Group has entered into 5 cooperation joint venture agreements with its key distributors which remain in force as at the Latest Practicable Date. All of these 5 key distributors are independent third parties. Such agreements have the same investment structure under substantially similar commercial terms as the Cooperation Agreement. Pursuant to the cooperation joint venture agreements, the consideration paid by Shanghai Gabanna is determined at a PER of 6.5 times of the 2007 net profits of the respective target assets and business controlled by the joint venture partners. The joint venture partners guarantee to Shanghai Gabanna that the net profit of the respective joint venture companies should grow by 30% in 2008 as compared to their respective net profit in 2007. Accordingly, the consideration paid by Shanghai Gabanna represents a PER of 5 times ( $= 6.5/1.3$ ) of the 2008 guaranteed net profit of the respective joint venture companies. The cooperation joint venture agreements further stipulate that the guaranteed net profit of the joint venture companies in 2010 should not be less than 211.25% of their

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respective net profit in 2007. Such guaranteed net profit in 2010 represents a growth of 30%, 30% and 25% in 2008, 2009 and 2010 respectively, and is equivalent to 1.625 times ( $= 1.3 \times 1.25$ ) of guaranteed net profit in 2008.

Pursuant to the Cooperation Agreement, Chen Brothers undertake that the aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) as shown in its audited consolidated financial statements for the two years ending 31 December 2009 and 2010 to be prepared in accordance with the PRC GAAP shall not fall below 258.75% of the 2008 Profits. The 258.75% is determined by reference to an annual growth of 15% and 25% in 2009 and 2010 respectively (i.e.  $1.15 + 1.15 \times 1.25 = 2.5875$ ). On this basis, the net profit of the Joint Venture Company and as generated by the Target Assets and Business in 2010 is expected to be 1.4375 times ( $= 1.15 \times 1.25$ ) of the 2008 Profits.

Accordingly, the PER of 4.42 times ( $= 5 \times 1.4375 \div 1.625$ ) adopted by the executive Directors in determining the Cash Injection Amount represents a proportional adjustment by reference to the expected net profits in 2010 guaranteed by the independent third party distributors and Chen Brothers. Further details of the profits guarantee are set out in the “Letter from the Board” contained in the Circular and the paragraph headed “Profits guarantee” below.

### 3. *Equity holding adjustment arrangement*

#### (i) *Profits guarantee*

Pursuant to the Cooperation Agreement, Chen Brothers undertake that the aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) recorded in its audited consolidated financial statements for the two years ending 31 December 2009 and 2010 to be prepared in accordance with the PRC GAAP (the “Actual Profits”) shall not be less than 258.75% of the 2008 Profits, that is, RMB74,796,151 (the “Target Profits”).

#### A. Actual Profits fall below the Target Profits

In the event that the Actual Profits are lower than the Target Profits, Shanghai Gabanna will be entitled to acquire additional equity interest in the Joint Venture Company from Chen Brothers at consideration of RMB1, given that at no time shall Shanghai Gabanna’s equity interest in the Joint Venture Company exceed 45%. The additional equity interest is determined as follows:

$$\text{Additional equity interest} = \frac{(\text{Target Profits} - \text{Actual Profits}) \times 30\%}{\text{Actual Profits}}$$

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provided that if the Actual Profits are below RMB1, they should be deemed as RMB1 for the purposes of calculating the additional equity interest of Shanghai Gabanna.

The Cooperation Agreement provides that at no time Shanghai Gabanna's equity interest in the Joint Venture Company shall exceed 45%, and therefore the additional equity interest which Chen Brothers will transfer to Shanghai Gabanna shall not exceed 15% in any event. If the shortfall in profits would entitle Shanghai Gabanna to more than 45% of equity interest in the Joint Venture Company, the excess portion shall be settled by cash compensation payable by Chen Brothers to Shanghai Gabanna. Such compensation shall be at the same price per each percent of equity interest as paid by Shanghai Gabanna with reference to the Cash Injection Amount subject to a maximum limit of cash equivalent to 55% of the entire equity holding in the Joint Venture Company. Such maximum limit amounts to RMB70,255,900. Chen Brothers shall at least retain a minimum of 55% equity interest in the Joint Venture Company if such event occurs.

Should the Actual Profits be less than the Target Profits, the Company will publish an announcement in accordance with Rule 2.07C of the Listing Rules and will include such relevant details in its next published annual report and accounts. The independent non-executive Directors will provide an opinion in the listed issuer's next published annual report and accounts as to whether Chen Brothers have fulfilled their obligations under the profits guarantee.

It is disclosed in the section headed "Background to and reasons for the Cooperation Agreement, the New Framework Agreement and the Continuing Connected Transactions" above that the executive Directors intend to take a minority interest in joint ventures with the Group's key distributors taking majority control in them. Therefore, the restriction of not holding more than 45% equity interest in joint ventures by the Group is imposed in the 5 cooperation joint venture agreements entered into with the Group's 5 independent third party distributors.

The 5 cooperation joint venture agreements stipulate that the cash compensation payable by the 5 independent third party distributors is limited to an amount equivalent to 6% of the entire equity holding in the joint ventures. Accordingly, the maximum limit of cash compensation of 55% contemplated under the Cooperation Agreement is more favourable as compared to those agreed with the 5 independent third party distributors.

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### B. Actual Profits exceed the Target Profits

In the event that the Actual Profits exceed the Target Profits, Shanghai Gabanna shall reward Chen Brothers in cash, calculated in accordance with the formula below:

$$\text{Monetary award} = \frac{(\text{Actual Profits} - \text{Target Profits}) \times 30\%}{2}$$

provided that the cash payment will not exceed the aggregate amount of dividends received by Shanghai Gabanna from the Joint Venture Company in respect of the two financial years ending 31 December 2009 and 2010.

As the realisation of benefit under monetary award arrangement will depend heavily on the ability of Chen Brothers to manage and run the Joint Venture Company and the Operating Company, we consider that such arrangement will motivate and align their interests with those of the Group and the Shareholders.

The 5 cooperation joint venture agreements also provide similar monetary award provision. However, there is no provision in the 5 cooperation joint venture agreements to limit the amount of monetary award payable by the Group to the 5 independent third party distributors. Even if the amount of dividend to be received by Shanghai Gabanna is less than the amount of monetary award calculated in accordance with terms of the cooperation joint venture agreements, the 5 independent third party distributors are entitled to the entire amount of monetary award calculated. We consider that the provision to limit the amount of award payable to Chen Brothers is in the interests of the Shareholders.

#### *(ii) Evaluation of the profits guarantee and monetary award*

Pursuant to the Cooperation Agreement, a profit guarantee will be in place whereby aggregate profits of the Joint Venture Company and as generated by the Target Assets and Business (as the case may be) for the two years ending 31 December 2009 and 2010 shall not be less than 258.75% of the 2008 Profits. Such percentage is determined based on an annual growth of 15% and 25% for 2009 and 2010 respectively (i.e.  $1.15 + 1.15 \times 1.25 = 2.5875$ ). In addition, if the Joint Venture Company outperforms the Target Profits, Chen Brothers will receive cash award from Shanghai Gabanna. In our evaluation of the fairness and reasonableness of the annual growth of 15% for 2009 and 25% for 2010 adopted in determining the Target Profits, we have obtained and made reference to the estimated net profit growth rates as set out in research reports on ANTA, Li Ning, Xtep and Pou Sheng issued by a number of research houses. We have not identified any research report on 361 Degrees. During our evaluation, we have excluded figures from the

only research report accessible for Pou Sheng due to the V-shaped fluctuation in 2009 and 2010. On this basis, we note that the estimated net profit growth of the remaining companies ranges from 12.8% to 30.2% for 2009, and from 12.8% to 28.6% for 2010. The annual growth of 15% for 2009 and 25% for 2010 with respect to the Joint Venture Company falls within the range for both 2009 and 2010. The annual growth of 15% for 2009 lies towards the low end of the range while the annual growth of 25% for 2010 lies towards the high end of the range.

As discussed in the paragraph headed “Evaluation of the Cash Injection Amount” above, the executive Directors have adjusted the PER to 4.42 times in determining the Cash Injection Amount proportionally by reference to the expected net profits in 2010 guaranteed by independent third party distributors and Chen Brothers. Moreover, the PER of 4.42 times is more favourable than the historical PER of the target in the Pou Sheng Deal.

On this basis, we consider that the annual growth rates for 2009 and 2010 as stipulated under the Cooperation Agreement for determining the Target Profits for the profits guarantee and monetary award are fair and reasonable.

**4. *Financial effects of the Cooperation Agreement on the Group***

*(i) Net assets and earnings*

The Joint Venture Company will be an associated company of the Group after completion of the Cooperation Agreement. As a result, the Group’s share of its financial results, assets and liabilities will be equity accounted for in consolidated accounts of the Group after completion of the Cooperation Agreement.

*(ii) Cash flow*

Pursuant to the terms of the Cooperation Agreement, the Group shall pay RMB38,321,400 to subscribe for 30% equity interest in the Joint Venture Company. Such amount is intended to be financed by internal resources of the Group and will be contributed to the Joint Venture Company according to the terms as set out in the paragraph headed “Principal terms of the Cooperation Agreement” above. According to the latest published annual report of the Group, the Group had audited consolidated cash and cash equivalents (excluding restricted bank balances) totalling approximately RMB5.9 billion as at 31 December 2008. As at 31 December 2008, the audited consolidated net current assets and the total commitments of the Group were approximately RMB6.2 billion and RMB377.0 million respectively. On this basis, the executive Directors are of the view, and we concur, that the Group would have adequate cash flow to finance the payment.

**C. Continuing Connected Transactions**

***1. Proposed principal terms of the Continuing Connected Transactions***

The New Framework Agreement will be entered into among the Company, Dong Gan Jing Ji and the Operating Company in order to regulate their relationship with respect to the Continuing Connected Transactions which involve the granting of a non-exclusive right to Dong Gan Jing Ji and/or the Operating Company to distribute Kappa brand and other sporting brand products of the Group in the PRC subject to the Annual Caps. The New Framework Agreement will be valid for an initial term of three years from 1 January 2010 to 31 December 2012. Proposed provisions under the New Framework Agreement allow automatic renewal for successive terms of three years unless it is terminated by either party by giving written notice pursuant to its terms or approval for the renewal of the three-year term is not obtained from the Independent Shareholders.

As disclosed in the “Letter from the Board” contained in the Circular, there may be uncertainties regarding the time required for completion of the Reorganisation and the investment by Shanghai Gabanna in the Joint Venture Company under the Cooperation Agreement. Therefore, in order to ensure continuity of business and given the fact that the current distribution arrangement conducted by Dong Gan Jing Ji is essentially no different from that to be conducted by the Operating Company, the executive Directors propose that the New Framework Agreement and the related Annual Caps shall be applicable to Dong Gan Jing Ji and/or the Operating Company in case transactions contemplated under the Cooperation Agreement are not completed by the end of 2009 or at all due to whatever reasons.

The major terms are set out in the New Framework Agreement, for example, the pricing basis in respect of sales of products (including sales of Kappa brand products, Robe Di Kappa and Phenix brand products) by the Group to Dong Gan Jing Ji and/or the Operating Company. Based on the New Framework Agreement, the detailed terms of individual sales of products to Dong Gan Jing Ji and/or the Operating Company in relation to (a) specification of products requested by Dong Gan Jing Ji and/or the Operating Company; and (b) detailed requirements on, among other things, (i) returns policy; (ii) terms on examination of products; and (iii) the costs for products and payment terms will be agreed from time to time based on the principal provisions as stated in the New Framework Agreement and on normal commercial terms. The proposed principal terms of the New Framework Agreement are as follow:

- (i) the terms of the Continuing Connected Transactions contemplated under the New Framework Agreement (including but not limited to pricing) should not be more favourable or less favourable than those granted by the Group to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji and/or the Operating Company;

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- (ii) the pricing or consideration of the transaction between the parties shall be determined after arm's length negotiations, on normal commercial terms and comparable to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji and/or the Operating Company. As a result, the price or consideration payable by Dong Gan Jing Ji and/or the Operating Company pursuant to the New Framework Agreement will not be more favourable or less favourable than those granted to other independent distributors or consignees belonging to the same tier as Dong Gan Jing Ji and/or the Operating Company;
- (iii) Dong Gan Jing Ji and/or the Operating Company should allow the Company to have access to their respective financial records for the purpose of reporting on the transactions in accordance with the Listing Rules;
- (iv) Dong Gan Jing Ji and/or the Operating Company as a distributor and consignee of the Group must sell the Kappa brand products or other brands managed by the Company at specified locations unless prior approval has been given by the Company; and
- (v) each party to the New Framework Agreement acknowledges that the Company is the exclusive supplier of the brand of products owned by or licensed to the Company.

We are advised by the executive Directors that sales payment terms of 45 days will be applied to Dong Gan Jing Ji and/or the Operating Company which will be the same as other distributors belonging the same tier in accordance with the Group's existing policy.

The auditors of the Company have performed certain factual finding procedures on the Continuing Connected Transactions relating to the sale of products to Dong Gang Jing Ji on a sample basis for the two financial years ended 31 December 2007 and 2008 (the "Past Transactions"). We note from the 2007 and 2008 annual reports of the Company that the auditors have reported, based on the factual findings for the selected samples of the Past Transactions, that such transactions were conducted in the manner stated in Rule 14A.38 of the Listing Rules (that is (a) they had received the approval of the Board; (b) they were entered into in accordance with the pricing policies of the Company; (c) they had been entered into in accordance with the relevant agreements governing them; and (d) they had not exceeded the relevant annual caps).

Based on the above analysis and the above-mentioned reports of the auditors on the Past Transactions, we consider that the Continuing Connected Transactions are being conducted on normal commercial terms.

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### 2. *The Annual Caps*

The Continuing Connected Transactions will be subject to the Annual Caps whereby for each of the three financial years ending 31 December 2010, 2011 and 2012, the amount of the Continuing Connected Transactions will not exceed the applicable annual amounts stated in the “Letter from the Board” contained in the Circular. In assessing the reasonableness of the Annual Caps, we have discussed with the executive Directors and management of the Company the basis and underlying assumptions for the purpose of setting the Annual Caps.

#### *Sales of products to Dong Gan Jing Ji and/or the Operating Company*

Set out below are the approximate amount of sales of products to Dong Gan Jing Ji for each of the two financial years ended 31 December 2007 and 2008 and the five months ended 31 May 2009:

	<b>Financial year ended</b>		<b>Five months ended</b>
	<b>31 December</b>		<b>31 May</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Aggregate amount of sales of products to Dong Gan Jing Ji	157,513	304,626	172,336
Approximate increase as compared to the previous year (%)		93.4%	

As disclosed in the Company’s 2008 annual report, the Group achieved an approximately 94.2% surge in sales from approximately RMB1,711.0 million in 2007 to RMB3,322.2 million in 2008. The surge was mainly contributed by the Group’s successful marketing strategies and well-positioning of the Kappa brand products and growth in consumer demand. The Kappa brand has been positioned at the forefront of sportswear fashion in the PRC market to convey an active, fashionable and youthful image that appeals to a fast-growing customer base. The number of Kappa brand retail outlets directly or indirectly operated by the Group’s distributors increased substantially from 1,945 as at 31 December 2007 to 2,808 as at 31 December 2008, representing a net increase of 863 retail outlets, or 44.4%. The Group completed the acquisition of a 91% shareholding of Phenix in May 2008. Following such acquisition, the Group expanded its business into the Japanese market which accounted for approximately 12.5% of the Group’s total sales in 2008. The increase of number of retail outlets and the acquisition of Phenix also contributed to the growth in 2008. Dong Gan Jing Ji is one of the top three distributors of the Group. The number of retail outlets of Dong Gan Jing Ji (including its sub-distributors) increased from 201 as at 31 December 2007 to 321 as at 31 December 2008, representing an

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increase of approximately 59.7%. Accordingly, the significant increase of the Group's sales of products to Dong Gan Jing Ji of approximately 93.4% in 2008 was, in general, in line with the business growth of the Group in that year.

Sales to Dong Gan Jing Ji were approximately RMB172.3 million for the five months ended 31 May 2009. The 2009 fall and winter seasons sales fairs have been held and confirmed pre-orders in respect of the 2009 second half sales have been received from Dong Gan Jing Ji. The executive Directors estimate that the aggregate sales to Dong Gan Jing Ji and/or the Operating Company will continue to rise in 2009 but at a lower level as compared to the significant growth in 2008. This is mainly because the financial tsunami has caused distributors to become conservative with respect to sales of sportswear products in the first half of 2009. With the implementation of proactive fiscal and monetary policies by the PRC government, the PRC economy has shown signs of improvement. This partly offsets such adverse effect and leads to further growth of sales to Dong Gan Jing Ji and/or the Operating Company in 2009.

The executive Directors believe that the location of retail outlets is a critical factor for the success of the Group's business. In response to this, the Group has put great efforts to cooperate with its distributors (including Dong Gan Jing Ji) to secure prime locations for expansion. With years of effort, the Group, through Dong Gan Jing Ji, has established a strong foothold in most of the strategic locations with high pedestrian flow in certain service regions of Dong Gan Jing Ji such as Beijing. Dong Gan Jing Ji and the Operating Company will continue to expand their retail network in their service regions, in particular, the newly penetrated market, high potential second and third-tier cities and newly developed areas of existing service region(s). However, the executive Directors consider that the growth rate of retail outlets of Dong Gan Jing Ji and the Operating Company for coming three years ending 31 December 2010, 2011 and 2012 is expected to be on a decreasing trend because the Group intends to put more emphasis on enhancing the average sales per retail outlet to boost sales from 2010 to 2012. Accordingly, the executive Directors expect that there will be an increasing trend for the growth rate of the average sales per retail outlet for coming three years ending 31 December 2010, 2011 and 2012.

It was disclosed in the Company's 2008 annual report that the Group plans to launch several new brand products in 2009, namely Phenix's "Kappa Golf" brand and "Phenix" brand products in the PRC. Furthermore, the Group also plans to launch the sub-brand of Kappa brand, Robe Di Kappa, in the PRC market. The launch of new brand and sub-brand products is intended to provide a greater variety of products to customers and to develop a tiered strategy by providing a range of products to enhance the average sales per retail outlet. One of the other strategies to be adopted by the Group to achieve greater average sales per retail outlet is to enhance the quality of

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customer service offered by its distributors (including Dong Gan Jing Ji, the Operating Company and their sub-distributors). Training sessions will be strengthened and provided four times a year to staff from distributors' retail outlets to enhance their skills including their sales techniques and product knowledge in order to achieve higher average sales per retail outlet. Last but not least, the Group is now integrating Phenix's design, production, research and development into its PRC operations. Such integration is expected by the executive Directors to improve the design and development capabilities of the Group because Phenix has a technical centre near Tokyo, which has a number of talented specialists who are experienced at turning product design into high-quality products. Accordingly, the improvement of design and quality of products is the other strategy for the Group to improve average sales per retail outlet. Based on the documents showing the number of retail outlets at year end provided to us by the executive Directors, the number of retail outlets of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) is expected to increase by approximately 16.3% from approximately 411 retail outlets as at 31 December 2009 to approximately 478 as at 31 December 2010. The average sales of products per retail outlet of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) is expected to increase by approximately 8.4% in 2010. On this basis, the sales of products to Dong Gan Jing Ji and the Operating Company (including their sub-distributors) are estimated to increase by approximately 26.1% in 2010 as compared to the estimated sales in 2009.

Pursuant to the New Framework Agreement, the products to be supplied by the Group to Dong Gan Jing Ji and/or the Operating Company will cover not only products of existing brands of the Group but also include other future brand products of the Group. As disclosed in the 2008 annual report of the Company, the Group will endeavour to find and explore opportunities for acquisition of the ownership or long-term operating rights for one or more international brands in the PRC and/or regional markets. Accordingly, the executive Directors, when determining the Annual Cap for 2010, have built in a buffer to cater for possible additional sales growth in this regard. On the basis that (a) such buffer allows flexibility for the Group to take up more orders from Dong Gan Jing Ji and the Operating Company relating to Kappa brand products, and other existing and future brands' products should they be placed; and (b) the Continuing Connected Transactions are conducted on terms no more favourable or less favourable than those granted by the Group to other distributors or consignees belonging to the same tier as Dong Gan Jing Ji and/or the Operating Company, we consider such buffer to be acceptable. Based on the above, the executive Directors estimate that the Annual Cap for the year ending 31 December 2010 is RMB455 million, representing an approximately 28.1% increase as compared to the estimated annual sales to Dong Gan Jing Ji and/or the Operating Company in 2009.

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In determining the Annual Cap of RMB591 million for 2011, the executive Directors have made reference to, among other things, an expected increase in the number of retail outlets of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) of approximately 6.1% and an estimated increase in the average sales of products per retail outlet of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) of approximately 19.3% in 2011 as compared to 2010. As a result, an overall increase of approximately 29.9% is incorporated by the executive Directors in estimating the Annual Cap of RMB591 million for 2011, taking into account the expected increase in both the number of retail outlets of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) and their average sales per retail outlet as well as a buffer of approximately 3.3%.

Based on the information provided to us by the executive Directors, the number of retail outlets of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) is expected to increase by 5.7%, while the average sales of products per retail outlet of Dong Gan Jing Ji and the Operating Company (including their sub-distributors) is expected to increase by approximately 21.2% in 2012 as compared to 2011. With factors discussed above and a buffer of approximately 2.0%, an overall increase of approximately 30.1% is incorporated by the executive Directors in estimating the Annual Cap of RMB769 million for 2012.

Taking into account the aforesaid factors, the Annual Caps for the sales of products to Dong Gan Jing Ji and/or the Operating Company are set as follows:

	<b>Financial year ending 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Annual Caps for the sale of products by the Group to Dong Gan Jing Ji and/or the Operating Company	455,000	591,000	769,000
Approximate increase as compared to the Annual Cap of previous year (%)		29.9%	30.1%

In our evaluation of the fairness and reasonable of the Annual Caps, we have made reference to the industry overview section as contained in the prospectus of 361 Degrees dated 18 June 2009. Such section contains, among other things, information extracted from a report prepared by an independent market research and consulting company with respect to the PRC sportswear industry. From this information prepared by such independent market research and consulting company, we note that total

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sportswear revenue in the PRC is projected to grow at 32.5% annually between 2008 and 2013. Accordingly, the approximate annual increases of the Annual Caps for coming three years are in line with the projected total revenue growth of the PRC sportswear industry as described above.

Having considered the basis on which the Annual Caps are determined as described above, we are of the view that the Annual Caps are fair and reasonable.

### ***3. Conditions of the Continuing Connected Transactions***

In compliance with the Listing Rules, the conduct of the Continuing Connected Transactions is subject to a number of conditions which include, among other things:

- (i) the Annual Caps for each of the three financial years ending 31 December 2010, 2011 and 2012 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with Rule 14A.37 of the Listing Rules, review annually the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review annually the Continuing Connected Transactions and they will confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether the Continuing Connected Transactions:
  - (a) have received the approval of the Board;
  - (b) are in accordance with the pricing policies of the Group;
  - (c) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
  - (d) have not exceeded the Annual Caps;

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- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in the points (ii) and/or (iii) above respectively;
- (v) the Company will allow, and procure that Dong Gan Jing Ji and/or the Operating Company will allow, the auditors of the Company sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of the auditors' review as referred to in point (iii) above. The Board must state in the annual report whether its auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (vi) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the Continuing Connected Transactions exceeds the Annual Caps, or that there is any material amendment to the terms of the New Framework Agreement.

In light of the conditions attached to the Continuing Connected Transactions, in particular, (1) the restriction of the amount of the Continuing Connected Transactions by way of the Annual Caps; (2) the ongoing review by the independent non-executive Directors and auditors of the Company regarding the terms of the Continuing Connected Transactions; and (3) the continuing review by the auditors of the Company confirming the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

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## LETTER FROM SOMERLEY

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### OPINION

Having taken into account the above principal factors and reasons, we consider that (1) the terms of the Cooperation Agreement and the proposed terms of the New Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of (i) the Cooperation Agreement and the New Framework Agreement; and (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; (3) the Continuing Connected Transactions are in the ordinary and usual course of business of the Group; and (4) the proposed Annual Caps for the three financial years ending 31 December 2010, 2011 and 2012 are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purposes of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and Chief Executives

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Name of Director(s)	Nature of interest	Long position	Short position	Approximate % of the issued share capital
Mr. Chen Yihong	Interest of a controlled corporation <sup>(1)</sup>	2,467,081,000	—	43.54%
	Deemed interest <sup>(2)</sup>	325,520,000	—	5.74%
Mr. Qin Dazhong	Interest of a controlled corporation <sup>(3)</sup>	211,864,000	—	3.74%
Dr. Xiang Bing	Personal Interest <sup>(4)</sup>	115,000	—	0.002%

*Notes:*

- Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn wholly-owned and controlled by Mr. Chen Yihong.
- Ms. Liu Peiyong is the spouse of Mr. Chen Yihong and Mr. Chen Yihong is therefore deemed to be interested in the Shares held by Ms. Liu Peiyong through Colour Billion Limited.
- Wise Finance Ltd., is a wholly-owned and controlled by Mr. Qin Dazhong and Mr. Qin Dazhong is therefore deemed to be interested in the Shares held by Wise Finance Ltd.

4. These Shares are subject to options granted under the pre-IPO share option scheme adopted by the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

**(b) Interests of Substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO as otherwise notified to the Company and the Stock Exchange:

Name of Shareholder(s)	Nature of interest	Long position	Short position	Approximate % of the issued share capital
Poseidon Sports Limited	Corporate interest	2,467,081,000	—	43.54%
Talent Rainbow Far East Limited <sup>(1)</sup>	Interest in a controlled corporation	2,467,081,000	—	43.54%
Harvest Luck Development Limited <sup>(1)</sup>	Interest in a controlled corporation	2,467,081,000	—	43.54%
Colour Billion Limited <sup>(2)</sup>	Corporate interest	325,520,000	—	5.74%
Ms. Liu Peiyong <sup>(2)</sup>	Interest in a controlled corporation, deemed interest	2,792,601,000	—	49.28%

*Notes:*

1. Mr. Chen Yihong, Harvest Luck Development Limited and Talent Rainbow Far East Limited are deemed to be interested in the Shares held by Poseidon by virtue of Harvest Luck Development Limited and Talent Rainbow Far East Limited being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Both Harvest Luck Development Limited and Talent Rainbow Far East Limited are in turn

wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong, an executive Director, is the sole director of each of Poseidon, Harvest Luck Development Limited and Talent Rainbow Far East Limited.

2. Colour Billion Limited is wholly-owned by Ms. Liu Peiyong, who is the wife of Mr. Chen Yihong. Ms. Liu Peiyong is deemed to be interested in the Shares held by Colour Billion Limited and Mr. Chen Yihong's interests in the Company. Mr. Chen Yihong, an executive Director, is the sole director of Colour Billion Limited.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, there were no other persons or companies (other than the Directors and chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which were required to be recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange.

### **3. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS**

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2008 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of or leased to any member of the Group.

### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and his or her respective associates was considered to have an interest in a business which competed or was likely to compete, enter directly or indirectly, with the business of the Group other than those business to which the Directors and his or her associates who appointed to represent the interests of the Company and/or the Group.

### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

## 6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Somerley	a corporation licensed under the SFO which is permitted to engage in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

Somerley confirmed that it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group as at the Latest Practicable Date

As at the Latest Practicable Date, Somerley was not interested, directly or indirectly, in any assets which had since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and so far as the Directors were aware, no litigation or claims of material importance were pending or threatened by or against the Company or any of its subsidiaries.

## 9. LANGUAGE

In the event of inconsistency, the English text of this circular and the accompanying form of proxy will prevail over the Chinese text.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday (excluding public holidays), at the principal place of business of the Company in Hong Kong at Office Unit 9, 13/F., Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Cooperation Agreement;
- (b) the New Framework Agreement; and
- (c) the letter from Somerley.

**DONGXIANG**  
**China Dongxiang (Group) Co., Ltd.**

**中國動向(集團)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 3818)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Meeting**”) of the shareholders of China Dongxiang (Group) Co., Ltd. (the “**Company**”) will be held at Island Ballroom A, Level 5, Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 25 September 2009 at 10:00 a.m. to consider as special business and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions:

**ORDINARY RESOLUTIONS**

**“THAT**

- a) the execution of the agreement (the “Cooperation Agreement”) entered into between 上海嘉班納體育用品有限公司 (Shanghai Gabanna Sporting Goods Co., Limited\*) (“Shanghai Gabanna”) and Mr. Chen Yiliang, Mr. Chen Yiyong, Mr. Chen Yizhong, 北京動感競技經貿有限公司 (Dong Gan Jing Ji Company Limited\*) and 北京動感九六體育用品有限責任公司 (Dong Gan Jiu Liu Sportswear Company Limited\*) on 24 August 2009, pursuant to which, among others, Shanghai Gabanna agreed to subscribe for 30% equity interest in the joint venture company, namely 上海億博韜厲經貿有限公司 (Shanghai Yi Bo Tu Li Company Limited\*), (a copy of the Cooperation Agreement has been produced to the meeting marked “A” and has been initialled by the chairman of the meeting for the purpose of identification), the terms thereof, the execution and delivery thereof by the Company and the performance and implementation of the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;
- b) the new framework agreement (the “New Framework Agreement”) to be entered into between the Company, 北京動感競技經貿有限公司 (Dong Gan Jing Ji Company Limited\*) and 翰博嘉業(北京)貿易有限公司 (Han Bo Jia Ye (Beijing) Company Limited\*), (a copy of the New Framework Agreement has been produced to the meeting marked “B” and has been initialled by the chairman of the meeting for the purpose of identification), the terms thereof, the execution and delivery thereof by the Company and the performance and implementation of the transactions contemplated thereunder be and are hereby confirmed and approved;

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## NOTICE OF THE EGM

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- c) the annual caps of the Company under the New Framework Agreement in the amount of RMB455,000,000, RMB591,000,000 and RMB769,000,000 for the three years ending 31 December 2010, 2011 and 2012 be confirmed and approved; and
- d) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all acts and things and to approve, execute and deliver all notices, documents, instruments or agreements as may be necessary, desirable or expedient to carry out to give effect to any or all transactions contemplated under the Cooperation Agreement and the New Framework Agreement and to agree such variations, amendments or waivers thereof as are, in the opinion of such Director, in the interests of the Company. If the use of common seal is required under the Cooperation Agreement and the New Framework Agreement, any two directors or any one director and the company secretary of the Company are authorised to sign and use the common seal.

By Order of the Board  
**China Dongxiang (Group) Co., Ltd.**  
**Qin Dazhong**  
*Director*

Hong Kong, 7 September 2009

**Notes:**

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to attend and, vote instead of him. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith.
- (2) Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.
- (3) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notary certified copy of such power of attorney or authority, must be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 48 hours before the time of the meeting or any adjournment thereof.

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- (4) In the case of joint holders of a share, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.
- (5) The votes to be taken at the meeting shall be by way of poll.